1 August 2024

Global Markets Research

Daily Market Highlights

1 Aug: Dovish Fed pause; BOE in focus today

US equity and bond markets rallied; DXY plunged post-FOMC on September rate cut signal

JPY strengthened sharply below 150s against the greenback on BOJ's surprised 15bps hike

Unexpected pullback in Australia's trimmed CPI dented RBA rate hike odds

- US equities and bonds rallied after the Fed kept its policy rates unchanged but Fed Chair Jerome Powell hinted in his press conference that the central bank is ready to cut in September if inflation moves lower. Jobs data released during the day also echoed the central bank's view of a cooler labour market and efforts to reduce inflation, while mega cap tech names, especially Nvidia, also made a comeback amid reports that US allies are exempted from US' export controls on chipmaking gear. All in, the 3 major indices closed 0.2-2.6% d/d higher led by Nasdaq.
- Similarly, European tech names like ASML also benefited from the chip exemption news, sending Stoxx Eur 600 up 0.8% d/d. Corporate earnings also boosted the markets, with HSBC shares gaining after reporting earnings beat and a bumper buyback, but Adidas shares fell on a conservative guidance. Asian markets closed in greens as well, with Nikkei 225 jumping 1.5% d/d after the BOJ unexpectedly raised its policy rates and are primed to open higher today tracking the US and futures.
- Treasuries rallied on hopes of a September rate cut, sending yields plunging 9-12bps across the curve. The 2Y yield closed at 4.26% (-10bps) and the 10Y at 4.03% (-11bps). 10Y European bond yields fell at a more modest pace of 1-7bps, led by UK gilts ahead of today's BOE meet, where we see a close call for a 25bps cut.
- DXY plunged 0.4% d/d to 104.10 after Powell's dovish comments and the Dollar weakened against all its G10 peers and regional currencies. JPY led gains against USD, strengthening 1.8% d/d to 149.98 after BOJ's surprised move. EUR and AUD appreciated by 0.1% d/d each despite mixed CPI prints for the two economies, while GBP strengthened 0.2% d/d ahead of BOE's monetary policy decision today. As it is, market remains split on whether the central bank will deliver a rate cut today. On the regional front, MYR and SGD were stronger in tune to 0.5-0.7% d/d to close at 4.5905 and 1.3360.
- In the commodities market, crude oil prices rallied 2.7-4.3% d/d on reports that Iran ordered a retaliation against Israel and as investors embraced risks after the Fed signalled that it is moving closer to cutting rates. EIA's report of lower US crude inventories at 3.4m last week also provided more support to prices.

FOMC maintained key policy rates, risks to both sides of its dual mandate

- As widely expected, the FOMC unanimously voted to maintain the Fed funds rate at 5.25-5.50%, with subtle shifts in the statement that sets the backdrop for a September rate cut. Key highlights include: 1) Although still elevated, the Fed said that there has been further progress toward the 2% inflation goal, rather than "modest further progress" previously. 2) Fed noted that job

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	40,842.79	0.24
S&P 500	5,522.30	1.58
NASDAQ	17,599.40	2.64
Stoxx Eur 600	518.18	0.80
FTSE 100	8,367.98	1.13
Nikkei 225	39,101.82	1.49
CSI 300	3,442.08	2.16
Hang Seng	17,344.60	2.01
Straits Times	3,455.94	0.41
KLCI 30	1,625.57	0.85
FX		
Dollar Index	104.10	-0.44
EUR/USD	1.0826	0.10
GBP/USD	1.2856	0.16
USD/JPY	149.98	-1.83
AUD/USD	0.6542	0.06
USD/CNH	7.2270	-0.23
USD/MYR	4.5905	-0.68
USD/SGD	1.3360	-0.46
Commodities		
WTI ($/bbl)	77.91	4.26
Brent ($/bbl)	80.72	2.66
Gold ($/oz)	2,426.50	0.89
Copper ($$/MT)	9,225.00	2.82
Aluminum($/MT)	2,290.50	2.97
CPO (RM/tonne)	4,044.00	0.17

Source: Bloomberg, HLBB Global Markets Research
** Dated as of 30 July for CPO*

gains have moderated (rather than “remained strong” previously) and that the unemployment rate has moved up, although it remains low. 3) With this, the committee noted that risks to achieving its employment and inflation goals are moving into better balance and is attentive to the risks to both sides of its dual mandate, a shift from only “highly attentive to inflation risks” previously. We are changing our views and now expect the Fed to deliver a total of 50-75bp cut this year.

- Meanwhile, data showed that wage growth is abating and that the cooler labor market is helping with the Fed's effort to slow inflation. According to ADP, private sector employment slowed to +122k in July (June: +155k), while pay gains for job-stayers moderated to 4.8% y/y, its slowest pace in 3 years. Pay gains for job-changers also saw a big drop to +7.2% y/y from 7.7% y/y previously, while separate data showed that the Employment Cost index moderated to +0.9% in 2Q from +1.2% in 1Q.
- Mixed housing prints but with affirmative signs that the housing market is moving into a buyer’s market. Pending home sales rebounded more than expected by 4.8% m/m in June (May: -1.9% m/m) as the rise in housing inventory is beginning to lead to more contract signings, although multiple offers were less intense. Mortgage applications, meanwhile, contracted 3.9% w/w for the week ended July 26 (prior: -2.2% m/m) with purchase volume falling due to affordability challenges, while refinance volume dropped sharply as borrowers await lower mortgage rates.
- The Chicago Business Barometer retreated less than expected to 45.3 in July after rising in June (47.4), the first time since November 2023. The fall was broad based and the accompanying survey showed that 37.1% expect business activity to grow by 0-5% in 2H, 31.4% expect no growth, with 20.0% responding with declining plans for the balance of this year.

BOJ surprised with a rate hike to 0.25%

- In a surprised move, the Bank of Japan (BOJ) decided, by a 7-2 majority vote, to increase the uncollateralized overnight call rate by 15bps to 0.25%. The central bank also said that it would cut its monthly bond purchase to about ¥3tn in 1Q. Key highlights from the statement and Governor Kazuo Ueda’s press conference include: 1) Japanese economic activity and prices are in line with the bank’s outlook and moves to raise wages have been spreading. 2) Import prices have turned positive again, and upside risks to prices require attention, suggesting that further rate hikes are on the cards. 3). The central bank cut its GDP and core CPI forecasts for fiscal 2024 by 0.2ppts to +0.6% and by 0.3ppts to +2.5%. 4) During the press conference, Ueda said that the central bank could raise interest rates further, even hinting at beyond the 0.5% level if necessary, as real interest rates are at significantly low levels, officials continue to expect a moderate cycle of rising wages and the weak yen is pushing up import prices. 5) He said that the weak yen hasn't changed BOJ’s forecasts in a significant way, but could lead to an overshoot of inflation.
- Data wise, consumer confidence improved more than expected to 36.7 in July from 36.4 previously, its second month of improvement with gains across board except for income growth.

Eurozone’s price prints overshot expectations

- CPI rose 2.6% y/y in July (June: 2.5%), while core remained stabled at 2.9% y/y, both above street estimates. Looking at the components, services costs remained elevated at 4.0% y/y (June: 4.1% y/y), while easing food, alcohol &

tobacco (2.3% y/y vs 2.4% y/y) was offset by higher energy costs (1.3% y/y vs 0.2% y/y) and prices for non-energy industrial goods (0.8% y/y vs 0.7% y/y). With this, while we believe that the disinflation trend remains intact, the latest data make a September rate cut a close call, especially in view of still elevated services inflation, headline CPI seeing a much lower base effect in 4Q and YTD prices suggesting that inflation in 2024 could surpass ECB's forecast.

Softer but better than expected retail sales for Australia, trimmed inflation unexpectedly eased

- A positive set of prints from Australia. Retail sales eased, but was above forecasts at 0.5% m/m in June (May: +0.6% m/m) as end-of-financial year sales boosted spending by more than usual, particularly on discretionary items like furniture, electrical goods and clothing, while trimmed mean inflation unexpectedly eased to +0.8% q/q in 2Q from +1.0% q/q previously, shutting the door for further hike and opening door for the RBA rate cut going forward although markets remained split on this in terms of timing. We maintain our view for a pause until the end of the year. The most significant contributors to inflation during the quarter were housing, while prices of food and non-alcoholic beverages also inched higher due to unfavourable growing conditions.
- S&P revised Australia's Manufacturing PMI 0.1ppts up to 47.5 in July (June: 47.2) this morning. Although an improvement, the index at this level remains weak and is expected to remain so in the short-term given the reduction in output and new orders.

Softer PMIs for both China's manufacturing and non-manufacturing

- Matching expectations, manufacturing activity (49.4 vs 49.5) remained in contraction for a third consecutive month in July, weighed down by a decline in market demand, as well as extreme weather. The non-manufacturing PMI, nonetheless, remained expansionary at 50.2 (June: 50.5) but fell short of street estimates as both the construction and services sub-indices eased to 51.2 and 50.0 respectively (June: 52.3 and 50.2). With new orders indices for both sectors posting steeper declines and the selling prices contractionary, signalling deflationary tendencies and weak domestic demand, these thus suggest that the GDP will mostly slow in 3Q and any sustainable recovery will largely dependent on how long the strong export growth can continue, and with meaningful expansionary fiscal policies.

Hong Kong's 2Q GDP grew better than expected at a moderate pace

- The Hong Kong economy continued to record moderate growth in 2Q, although better than expected at +3.3% y/y and +0.4% q/q (1Q: +2.8% y/y and +2.5% y/y). Growth was largely driven by strong growths in exports of goods as well as investment expenditure, but consumer spending turned negative (-1.6% y/y). With this, we expect that the Government's target GDP growth of 2.5-3.5% for 2024 remains achievable, but with downside risks from softer external demand growth going forward, especially from China, as well as a strong HKD which has and will continue to weigh on consumption.

House View and Forecasts

FX	This Week	3Q-24	4Q-24	1Q-25	2Q-25
DXY	102-106	104.28	102.71	101.69	100.67
EUR/USD	1.07-1.10	1.08	1.09	1.08	1.06

GBP/USD	1.26-1.30	1.28	1.29	1.28	1.28
USD/JPY	148-154	158	155	151	148
AUD/USD	0.64-0.67	0.67	0.68	0.69	0.69
USD/MYR	4.56-4.64	4.66	4.60	4.54	4.50
USD/SGD	1.33-1.36	1.34	1.33	1.32	1.30

Rates, %	Current	3Q-24	4Q-24	1Q-25	2Q-25
Fed	5.25-5.50	5.00-5.25	4.50-4.75	4.25.-4.50	4.00-4.25
ECB	3.75	3.50	3.25	3.00	2.75
BOE	5.25	5.00	4.75	4.50	4.25
BOJ	0.25	0.25	0.25	0.40	0.40
RBA	4.35	4.35	4.35	4.10	3.85
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
1-Aug	JN Jibun Bank Japan PMI Mfg (Jul F)	49.2
	MA S&P Global Malaysia PMI Mfg (Jul)	49.9
	VN S&P Global Vietnam PMI Mfg (Jul)	54.7
	AU Exports MoM (Jun)	2.80%
	CH Caixin China PMI Mfg (Jul)	51.8
	EC HCOB Eurozone Manufacturing PMI (Jul F)	45.6
	HK Retail Sales Value YoY (Jun)	-11.50%
	UK S&P Global UK Manufacturing PMI (Jul F)	51.8
	EC Unemployment Rate (Jun)	6.40%
	UK Bank of England Bank Rate	5.25%
	US Challenger Job Cuts YoY (Jul)	19.80%
	US Unit Labor Costs (2Q P)	4.00%
	US Initial Jobless Claims	235k
	UK DMP 1 Year CPI Expectations (Jul)	2.80%
	US S&P Global US Manufacturing PMI (Jul F)	49.5
	US ISM Manufacturing (Jul)	48.5
2-Aug	AU PPI YoY (2Q)	4.30%
	AU Home Loans Value MoM (Jun)	-1.70%
	US Change in Nonfarm Payrolls (Jul)	206k
	US Unemployment Rate (Jul)	4.10%
	US Average Hourly Earnings MoM (Jul)	0.30%
	SI Purchasing Managers Index (Jul)	50.4
	US Factory Orders (Jun)	-0.50%

Source: Bloomberg

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